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Pakistan

Grain and Feed

Grain and Feed Update

2007

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Report Highlights:

The Government of Pakistan recently banned wheat exports in order to moderate prices, which were escalating due to speculative export buying. This move appears aimed to avoid a repeat of the situation for rice. Large rice purchases by Iran in anticipation of international sanction have resulted in limited domestic rice supplies and resulting high prices. There is some speculation Pakistan may even import limited quantities of rice for the first time in its history. Since this is an election year and food prices are increasing at nearly double the overall inflation rate, the government actions are largely aimed to assure adequate domestic supplies and curb inflation.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Islamabad [PK1]
[PK]

WHEAT

Production

MY 2007/08 Pakistan wheat production is forecast at a record 23 million metric tons (MMT), mainly due to enhanced productivity resulting from favorable weather followed by greater availability and use of inputs. Widespread and timely rains across the country since the start of Rabi season, about 25 percent subsidy on imported phosphatic and potassic fertilizers, and the higher support price of wheat over the previous year have resulted in increased productivity, especially in rain fed areas.

The Ministry of Food, Agriculture and Livestock (MINFAL) maintain a forecast of 23.5 MMT, based on crop's second estimate. This estimate anticipates a greater positive impact from the increased use of certified seed, herbicides, and easy credit. Industry sources believe MINFAL's estimate is overly optimistic.

Procurement

The Government of Pakistan (GOP), through Pakistan Agricultural Services and Supplies Corporation (PASSCO) and provincial food departments, procured about 4.3 MMT of wheat as of May 31, 2007. The GOP wheat procurement target is 5 MMT but may be difficult to obtain due to competition from the private sector, particularly for export (which the government recently banned).

Consumption

Domestic wheat consumption continues to expand 2-3 percent per annum driven by population growth and increasing industrial uses, which is creating keen competition between the food and other uses for available supplies. Domestic corn production has almost doubled over the past decade, minimizing the use of wheat for poultry feed, which has helped to stabilize demand and prices somewhat. An estimated 500,000 tons of wheat and flour is smuggled into Afghanistan annually and counted as domestic consumption. The government regulates wheat, flour, and bread prices through the release of government stocks. The ban on exports is expected to lead to softer prices.

Trade

Due to expected record harvest, the GOP lifted its two and a half year ban on the duty free export of wheat and set an export target of 1.3 MMT. Private sector traders began an aggressive buying campaign, based on expected demand from neighboring countries, including India, Afghanistan, and Iran. Iran, a perennial major wheat importer, is buying aggressively to build food reserves in the event international economic sanctions are imposed for its nuclear program. This speculative buying for export demand increased prices above the already high procurement price (Rs.10625=USD 177 per MT), which resulted in lower procurement, particularly in Sindh (which is wheat deficient) and higher flour and bread prices. Given that wheat is the staple food in the Pakistani diet, that the rate of inflation for food (12-15 percent) is about double the overall inflation rate (8 percent), that this is an election year, and that record (and unregulated) rice exports may result in Pakistan importing rice for the first time in its 60 year history (see below), Pakistan Economic Coordinating Committee (ECC) announced a ban on wheat exports effective May 25, 2007.

Most sources do not believe the government will reverse this ban and permit exports later in the season. Exports to date are estimated at no more than 200,000 tons, including less than

10,000 tons to India. As a result, Pakistani exporters will not be able to fulfill existing contracts, which will diminish Pakistan's credibility as a reliable trading partner.

The GOP essentially has no long-term wheat policy. Pakistan does not have a comparative advantage in wheat production and export decisions are based more on short-term considerations and political expediency, than on a long-term strategy. Most observers believe Pakistan would be better served to formulate a long-term strategy, including development of strategic stocks.

Stocks

The GOP maintains stocks through PASSCO and the provincial food departments. This year's record harvest, combined with the export ban will result in adequate government and private sector stocks and softer prices.

RICE

There are no changes in Pakistan's rice production, supply, and demand reported in PK 7002. However, domestic retail prices have increased more than 60 percent over the corresponding period last year, despite two successive bumper harvests. Escalating prices are due mainly to record exports, which have resulted in limited domestic supplies. Pakistan's rice exports, which are unregulated and handled exclusively by private sector traders, surged to more than 3 MMT this year due short of supplies in India and a buying spree by Iran to stockpile staple grains in anticipation of international economic sanction for its nuclear program. Most of the trade with India was accomplished through traders in Dubai. Most Iranian exports occur through legal channels; sources estimate that less than 20,000 tons is smuggled into Iran due to difficult logistics. Private sector traders continue to hold rice in anticipation of additional export business.

Sources report that rice millers and exporters were among the major speculators in the wheat market, as they possessed the capital and storage as well as firsthand knowledge of Iran's needs and logistics. The government's desire to prevent an export-driven run up in domestic wheat prices, as is occurring for rice, led to its decision to ban wheat exports in late May. Thus far, there is no indication the government will ban rice exports, largely because it is not considered a staple (strategic) food. Recent reports of possible rice imports—which would be the first in Pakistan's 60-year history—are generally viewed as an effort to 'talk the market down.' According to sources, sufficient stocks are available for local demand and Pakistani consumers prefer locally produced, aromatic rice over other varieties. Even so, both the government and the trade will continue to monitor the situation closely.